William T Kosturko
Executive Vice President/General Counsel
Legal/Government Affairs

people's bank

People's Bank
Bridgeport Center, 850 Main Street
Bridgeport, Connecticut 06604-4913

203 338 3667 Fax 203 338 3600
wtkostu@peoples com

RECEIVED
JUN 30 2005
By 172

June 28, 2005

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429
Attention: Comments
Via Email: comments@FDIC.gov

RE: Interagency Proposal on the Classification of Commercial Credit Exposures

Dear Mr. Feldman:

People's Bank, an $11 billion state chartered bank headquartered in Bridgeport, Connecticut ("People's"), appreciates the opportunity to comment on the Interagency Proposal on the Classification of Commercial Credit Exposures (the "Interagency Proposal"). To that end, we have reviewed the proposal with care, applied the new definitions to existing credits and attempted to calculate the potential time and effort required to implement a two dimensional risk rating system. In undertaking this analysis of the Interagency Proposal, People's formed a 12 member team including commercial lending and independent loan review staff. This team devoted considerable time to the analysis.

Unfortunately, the proposal leaves us with an unclear understanding of many key issues that were identified in our own analysis and are outlined in the Appendix that is attached to this letter. In addition to the questions raised in the Appendix, we are left with an unclear understanding of how the new classification system would be linked to the critically important issue of reserve methodology. As a result, we would like to be on record as being in opposition to the adoption of the Interagency Proposal.

The present regulatory risk rating system has served the banking system well for many years. Given that historical loss rates have been low while employing the present system during the past 10 years, it is not clear to us at People's what the compelling reasons are for a change to the present system, especially in light of the cost of implementation.

Of singular concern is the fact that our reserves are derived from the current rating system and a new reserve methodology may need to be established even though the Interagency Proposal does not provide guidance as to how that would be constructed. This could drastically and negatively affect future decisions and judgment regarding the establishment of adequate reserve levels.

A full cost estimate was not developed, but as a large bank, the time and effort required to implement the Interagency Proposal would be significant and burdensome. In applying the Interagency Proposal to just 25 existing credits at People's, the amount of analytical time expended by our loan review and commercial staff amounted to more than 450 man-hours. Implementing the proposed changes at People's Bank would involve re-educating hundreds of people, including professional lending, credit risk, accounting and support staff. The costs associated with developing and documenting changes to related policies and procedures also need to be considered.

As noted above, People's Bank is opposed to the proposed change. However, if the Agencies decide to adopt the Interagency Proposal, we have a number of technical questions arising from our review of the proposal and request additional clarification and guidance. Again, these questions are included in the Appendix to this letter.

People's Bank appreciates having been given the opportunity to submit these comments for your consideration.

Sincerely,

William T. Kosturko

Appendix

A. The proposal is not clear on how the loss severity estimates associated with the various "Facility" ratings should be factored into the allowance for loan loss calculation. The proposal states that banks can group similar types of loans to estimate how severe losses may be for each classification. It also states that institutions may use their ALLL (allowance for loan loss) impairment analysis as a basis for their severity estimates. However, how are "Facility" ratings to be incorporated into a bank's reserve methodology, especially as it relates to setting reserves based on the Moderate Loss category, which broadly ranges from >5% to < = 30%? What is considered acceptable criteria to group similar types of loans? What is considered acceptable relative to the methodology and extent of analysis required to estimate how severe losses may be for each classification?

B. Our reserves are driven by our commercial risk ratings. The formula reserve assigns specific percentages to each risk rating. When a Substandard rated credit is determined to have a gap in net realizable value of the underlying collateral relative to the loan balance and the gap exceeds the formula reserve, a specific reserve is allocated. If on the other hand, the net realizable value is determined to meet or exceed the outstanding balance of the loan, the formula reserve percentage would apply. However, under the proposed framework, we would have to choose a loss severity category. If the loss severity category was determined to be Moderate (>5% and <= 30% loss severity estimate), what percent would the Agencies expect us to factor into our reserve methodology? Do the Agencies expect us to hold somewhere between a 6% – 30% reserve against the loan or is the expectation that we hold the maximum 30% as reserve? If we rated the loss severity as High would we be expected to hold a 30% reserve or to set a specific reserve?

C. Referring to Example 4 in the Interagency Proposal – Rating Assignments for Multiple Loans to a Single Borrower. Under the existing framework we would split rate the two notes (one Pass and the other Substandard) because the sources of repayment on the two commercial mortgage loans used in the example are completely unrelated, essentially making them stand-alone transactions despite a common borrower. Given the same set of circumstances as in Example 4 , under the proposed framework, would we be permitted or at least have an option to split the "Borrower" rating between the two loans in consideration of the unrelated, separate and distinct sources of repayment? Would the treatment be any different depending on whether the loans were cross collateralized and cross defaulted or not? Of course we recognize that multiple loans to a commercial borrower with a single source of repayment would be assigned the same "Borrower" rating.

D. Given a situation in which you have a single borrower with multiple notes (one of which is secured by properly margined cash or high quality marketable securities that can be quickly liquidated to retire the note in full) and the borrower exhibits well defined credit weaknesses that jeopardize their continued performance, is it possible under the new framework to split the "Borrower" rating on a note level to reflect a Pass with a Remote Risk of Loss "Facility" rating for the one note secured by the cash or marketable securities and a Weak "Borrower" rating with a more severe facility rating for all the remaining notes?

E. If a bank underwrites a commercial mortgage loan against commercial real estate or a commercial term loan against equipment to a debt averse borrower who requests rapid amortization (for example, a traditional real estate loan for which a 20 year amortization with a 10 year term is considered market, instead is underwritten on a 10- year full payout basis) and after a period of time the borrower exhibits tight debt service ability, can the rapid amortization and ability for the borrower to refinance the loan at market terms and lower the debt service requirements be considered as a form of "financial flexibility"? It could be the difference between assigning a Marginal or Weak "Borrower" risk rating.

F. When discounting the market value of collateral to arrive at a net realizable value for determining an appropriate "Facility" rating, it is reasonable to factor in a discount for selling, holding and possibly legal costs. However, if the value of the collateral under consideration is based on an orderly liquidation value, which already takes into account similar deductions, are the Agencies requiring further discounts to what are already discounted valuations?

G. If a loan is secured by improved commercial real estate and the loan to value ratio is extremely low, what specific loan to value benchmarks would allow a "Facility" rating of Remote Risk of Loss?

H. The Interagency Proposal indicates that when a facility is unconditionally guaranteed, the guarantor's rating can be substituted for that of the borrower to determine whether a facility should be criticized or classified. If the guarantor does not perform its obligation under the guarantee, the guarantor is rated Default and the facility is included in the institution's classified assets. The proposed treatment of Guarantors lacks clarity and needs to be explained in greater detail to be fully understood. For example, how does a strong guarantor impact the "Borrower and/or Facility" ratings? What consideration can be given to limited guarantors with high liquidity, net worth and income, particularly when an extremely low loan to value provides motivation for the Guarantor to support a shortfall? Also, in the case of a deficiency guarantee, what credit can be given to a guarantor (either limited or full) in determining the "Facility" rating?

I. Regarding Chart 1 – Framework Overview, located on page 13 of the Interagency Proposal on the Classification of Commercial Credit Exposures. Are the Agencies using the "Pass" terminology to convey two separate and distinct concepts? Is Pass being used as a Borrower Rating, in addition to being a category for regulatory reporting purposes to capture those loans that are neither Criticized nor Classified. For example, assume a borrower has well defined weaknesses from a credit standpoint, but the loans are fully secured by a diverse, high quality portfolio of properly margined marketable securities. Should we infer from the chart that these loans could be borrower rated "Pass", because of the remote risk of loss? Or would the loans be "Borrower" rated Weak, "Facility" rated Remote Risk of Loss and outstanding balances categorized as Pass, as opposed to Criticized or Classified for regulatory reporting purposes?